

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE ROBINSON FILM CENTER (RFC) CONTRACT WITH THE CITY OF SHREVEPORT

INTERNAL AUDIT REPORT 220108-18

DECEMBER 31, 2008



December 31, 2008

Councilman Ron Webb
Chairman, Shreveport City Council

Dear Councilman Webb:

Subject: IAR 220108-18 - Audit of the Robinson Film Center Contract With the City of Shreveport

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
AUDIT OF THE ROBINSON FILM CENTER (RFC) CONTRACT
WITH THE CITY OF SHREVEPORT
INTERNAL AUDIT REPORT (IAR) 220108-18

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Robinson Film Center (RFC) is a 501 (c) (3) not-for-profit arts and film organization located at 617 Texas Street, Shreveport, Louisiana. It opened on May 20, 2008.

Its mission is to provide a place to show independent, international, and classic films while serving as a resource center for film production and media education.

RFC received \$624,000 from 2004 to 2007 from the City through a contract and amendment to be used "for the development and completion of a downtown theater." During the 2008 fiscal year, RFC also received a civic appropriation grant of \$200,000 through a contract with the City.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendations are not implemented. This report contains six findings and six recommendations.

Risk Levels	Recommendations
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	No recommendations are applicable.
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	* Loss of Grants Funding/Financial Stability (Finding 1)
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	* Written Addendum to Agreement with SPAR for <i>Movies and Moonbeams</i> Program (Finding 2) * Training and Development of Staff (Finding 3) * Board of Directors Conflict of Interest Disclaimer (Finding 4) * Compliance with Contract Terms and Requirements (Finding 5) * Policies and Procedures Manual (Finding 6)

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FINDINGS

	<u>Risk Factor</u>	
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AUDIT OF THE ROBINSON FILM CENTER (RFC) CONTRACT WITH THE CITY OF SHREVEPORT INTERNAL AUDIT REPORT (IAR-220108-18)

OBJECTIVES

The objective of this audit report was to review and evaluate compliance with the contract between the Robinson Film Center (RFC) and the City of Shreveport. This was a scheduled audit for 2008.

SCOPE AND METHODOLOGY

Our audit was performed in accordance with applicable generally accepted governmental auditing standards as defined in Operating Instruction A.20 of the Internal Audit Office Operating Instructions Manual. The scope of the audit was limited to the general controls surrounding the specific issues addressed. Our audit procedures included, but were not limited to, the following:

- Interviewing appropriate personnel and management.
- Observing operations and ongoing activities.
- Reviewing applicable documentation and records.

BACKGROUND

Robinson Film Center (RFC) is a 501 (c) (3) not-for-profit arts and film organization located at 617 Texas Street, Shreveport, Louisiana. It has two state of the art theaters and a screening room, multi purpose spaces for public events, a film library and more. It also has a concession stand and a stand-alone Abby Singer's Bistro restaurant to serve its patrons.

Its mission is to provide a place to show independent, international, and classic films while serving as a resource for film production and media education. It also serves as an accessible venue for local and regional filmmakers to test screen or premiere their works – from grade school projects to multi-million dollar professional productions.

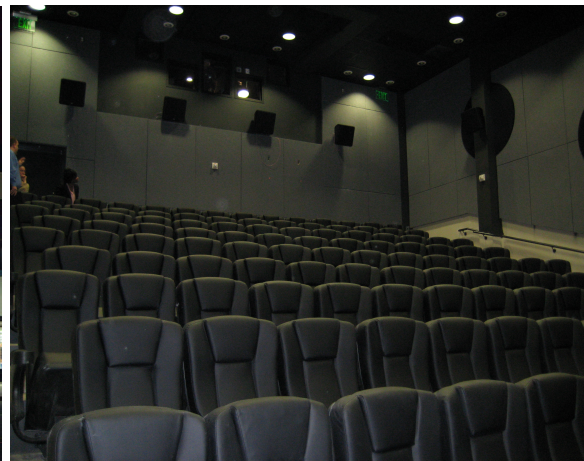
Robinson Film Center also serves as a liaison to various civic organizations and other local/regional entities involved in and pertinent to attracting new movies and films to the area.

The following pictures illustrate some exterior and interior photos taken of the RFC facility.

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Robinson Film Center



Robinson Film Center at night and main movie theater



Concession stand/box office and restaurant

In addition to daily film programming, RFC also offers popular outdoor Movies and Moonbeams cinema events, film and media production classes for all ages, and provides a variety of resources and facilities to the region's burgeoning film industry.

RFC goal is to utilize its brand new state of the art building to provide services that will enhance its other programming areas and that will establish the RFC as a community gathering center. These services include a bistro and bar, café and concessions, interconnected multi-purpose rooms that can be used for various education programming or special events such as private party rental.

RFC believes that its programs, services, and facilities will aid the City of Shreveport's ongoing Downtown Revitalization Project by bringing people back to downtown Shreveport and renewing surrounding areas.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office would like to express our sincere appreciation to Robinson Film Center's management and employees for the courtesy, patience, and for their invaluable assistance and cooperation during the course of our fieldwork and audit.

Overall, we found that the RFC management and staff are operating the entity efficiently and effectively. Based on the results of the audit, we believe that an adequate system of internal controls is in existence over the examined areas.

Our tests and observations of current operations and discussions with operating personnel indicated the following suggestions for operational efficiency. Our findings are summarized below:

1. Loss of Grants Funding/Financial Stability

Background: As a 501 non-profit organization, RFC is eligible to receive grants and funds from a variety of foundations, corporations, and governmental entities. The film center has an operation and programming budget of approximately \$1.9 million per year. To run its operations, RFC is using a combination of fundraising activities such as movie screenings, concession sales, cafe and restaurant revenues, grants from governmental entities, space rentals, naming rights, annual individual memberships, foundations, and corporate donations, etc.

Criteria: Varied stable funding sources are necessary to ensure that an entity is a going concern.

Condition: The unaudited Profit & Loss statement of June 2008 indicated the RFC obtains approximately 70% (\$1.3/\$1.9 million) of funding from state and city grants. Recently, these funding sources have been reduced or suspended, and as a result, the

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RFC may not be able to effectively carry its mission unless other reliable sources can be obtained.

Effect:

- Potential inefficient and ineffective operations.
- Operations may suffer and not be in accordance with its mission.

Cause: Funding constraints.

Recommendation: The Director, executive Board members, and development staff need to evaluate funding needs and identify the best strategies to meet the operational needs of the RFC. The organization should focus on sustainability - which focuses on the number of years an organization can survive based on current assets and spending; fundraising efficiency-which focuses on returns for dollars spent on fundraising; and financial stability - the organization's ability to stay in the black.

Management Response: The Robinson Film Center's revised budget effective January 1, 2009 effectively lowers our operating budget by \$500,000 to 1.4 million per year. These revisions were made by streamlining operations to more efficient standards with in the means of achievable funding in the foreseeable future. These revisions had no material effect on the RFC achieving the standards for which our mission is stated. The RFC's goal is to become self-funded with the assistance of grants sponsored by certain art organizations throughout the country. The RFC realizes that municipal funding is not meant to be a perpetual source and therefore seeks out donations from private entities and other art organizations.

2. Written Addendum to Agreement With SPAR for Movies and Moonbeams Program

Criteria: In the contract with the city of Shreveport, Robinson Film Center agrees, "in partnership with SPAR, to host the *Movies and Moonbeams* program of cinema in city parks."

Condition: The Robinson Center does work with SPAR to show a certain number of movies for the general public in various city parks per year. However, SPAR and the Robinson Film Center do not have a written agreement that specifies how many movies and the types and variety of movies to show per year.

Effect:

- A lack of written agreement between SPAR and the Robinson Film Center creates unnecessary tumultuous negotiation to come up with an agreeable number of movie showings and types of movies per year.

- Inefficiency in operations.

Cause: Administrative oversight.

Recommendation: We recommend that SPAR and the Robinson Film Center management create a mutually beneficial written agreement of number of movies showings and the variety of movies showings per year. It would help if the agreement includes the locations and types of movies.

Management Response: At present, RFC and SPAR are at odds. A written agreement may have been negotiated within the realms of our original agreement to have programs once monthly in conjunction with SPAR. However, demands for doubling the original programming to 24 showings per calendar year regardless of inclement weather proved to be terms which could not be agreed upon by RFC. SPAR at this time, is bidding out to purchase its own outdoor cinema equipment and in affect taking one of RFC's community outreach programs which is essential to our grant writing capabilities and which drastically affects the outcome of item 1 above. This will be a direct cause and effect to RFC securing future grant monies from sources other than municipalities. An added note is that as of this date, 2009 grant monies have been determined to be as much as 16 times that of the city's current funding. This will directly affect the future of RFC in the benefits it brings to the city of Shreveport.

3. Training and Development of Staff

Criteria: The RFC has 51 employees; 33 full-time and 18 part-time. A well trained, professional, and competent staff is required for any organization to accomplish its mission, goals, and objectives. Well trained staff could ensure the RFC is successful in reaching its goal to serve the film and entertainment needs for Northwest Louisiana and surrounding areas.

Condition: We could not see where the RFC is providing training and development to staff.

Effect: Inability to support completion of established goals and objectives; inefficient operations.

Cause:

- The RFC has only been opened since May 2008 with a new facility and staff.
- Lack of business and service industry expertise among Executive committee and staff members.

Recommendation: The Board and Executive Director should perform an assessment of training and development for its staff based on its mission, goals, and objectives.

Management Response: The RFC has recently undergone several staff changes of which business and service industry expertise were a major component in personnel decisions. The Board of Directors is made up of many business executives that offer their services as luminaries for the RFC staff. Every effort has been made to cover all parts of RFC operations including film, education, outreach, industry relations, funding, food and beverage, financial, and technology etc. At a recent Louisiana Division of the Arts interview the RFC received praise for its professional staff and what they have accomplished. As mentioned in your report the RFC had only been open for four months when this audit was performed.

4. Board of Directors Conflict of Interest Disclaimer

Criteria: To help ensure the appearance of impartiality and objectivity, Board members should be required to sign a conflict of interest disclaimer preventing them from engaging in any contract for work, materials or services related to the RFC.

Condition: We noted that the corporate bylaws did not prevent corporate officers or Board members from engaging in or doing business with the RFC, which may be construed as a conflict of interest. Additionally, there was no prohibition against Board members becoming employees of the RFC.

Effect: Possible negative publicity.

Cause: Lack of management oversight.

Recommendation: We recommend that the Center's Board consider amending the corporate bylaws to include provisions therein to address possible conflict of interest situations, such as engaging in or doing business with the Center, related time frames for conducting business with the Center, and employment by the Center, etc.

Management Response: Whereas the bylaws do not prevent corporate officers or board members from engaging in or doing business with the RFC it should be noted that no such arrangements have been made but to the contrary the RFC has purposely avoided business activity with current board members in the areas specific to banking, insurance, suppliers, and marketing. Board members have however, offered their assistance and contributed their time and efforts in a very selfless manner to ensure the success of the RFC. The Board of Directors will take this item under advisement and consider a conflict of interest provision be added to the bylaws to prevent any negative connotations.

5. Compliance with Contract Terms and Requirements

Criteria: Robinson Film Center received a civic appropriation grant of \$200,000 from the city of Shreveport in 2008 to support their operations. In order to comply with the

grant, the film center should fulfill all requirements from the grant's contract terms and stipulations. The contract stated "Robinson agrees to use its best efforts to hire persons at all levels who are representative of the local demographic makeup; specifically, to include fair representation of minorities and females. Robinson further agrees to insure fair opportunities for local minority and female-owned businesses in the purchases of goods and service necessary for its on going operations."

Condition: We did not see any available procedures in place to meet the terms of this requirement to hire best persons at all levels who are representative of the local demographic, or, to ensure fair representation of minorities and females in contracting opportunities.

Effect:

- Possibility of inadequate representation of minorities and females in hiring practices.
- Possibility lack of contracting opportunities for minority and female businesses.

Cause: Administrative oversight.

Recommendations: We recommend that the Robinson Film Center management and Board members develop written procedures to use their best efforts to hire qualified persons at all levels who are representative of the local demographic.

Management Response: Staffing within the guidelines provided in our contract with the city has always been a part of RFC policy and will continue to be a component of our manual. Currently the RFC employs 40 persons on a full and part-time basis. Of those 13 are African-American, 16 are women, 3 are Spanish. The RFC will pursue employment demographics that are representative of the local community now and in the future.

6. Policies and Procedures Manual

Criteria: Documented policies and procedures can improve operations of an organization by providing standards for uniformity in practices, establishing clear lines of responsibility, enhancing accountability, and lessening the threat to continuity posed by employee turnover.

Condition: The Center has not promulgated effective policies and procedures that communicate and clearly define authority and responsibility to employees regarding many of the administrative activities performed for the organization. Specifically, we noted a lack of written policies concerning cash-handling; document initiation, authorization, and approval; travel; personnel; vacation and sick time; financial reporting; payroll processing; confidentiality issues; record-keeping; health insurance coverage; cell phone usage; and other critical tasks and responsibilities.

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Effect:

- Operations may not be in accordance with mission, goals, and objectives.
- Policies and procedures may be violated.
- Existing laws and regulations may be violated.

Cause: Prior management had not assessed the benefits of a policies and procedures manual. In many cases, verbal instructions are given to employees.

Recommendation: We recommend that management develop and implement a comprehensive policies and procedures manual which addresses key operations and activities of the organization. This manual should be distributed to employees, along with their written acknowledgment, and would serve as a reference tool for employees seeking guidance on the proper handling of day-to-day transactions and situations.

Management Response: The RFC acknowledges that prior management had not implemented proper policies and procedures. At this writing current management is restructuring staff and putting together a comprehensive manual to be distributed to all employees to serve as a reference tool for daily activities.

Prepared by:

Brian Nguyen
Staff Auditor

Approved by:

Leanis L. Graham, CPA, CIA
City Internal Auditor

bn

c: Mayor
CAO
City Council
Clerk of Council
City Attorney
External Auditor
Robinson Film Center Executive Director
SPAR Director